

## Review of Operations

# PROPERTY DIVISION

Swire Properties' investment portfolio in Hong Kong principally comprises office and retail premises in prime locations, as well as serviced apartments and other luxury residential accommodation. The completed portfolio totals 12.64 million square feet of gross floor area. Current investment property pending or under development in Hong Kong comprises a further 2.58 million square feet, mainly of office space. In addition, Swire Properties has a 20% interest in each of the three hotels in Pacific Place. Outside Hong Kong, Swire Properties owns a 10% interest in the CITIC Square development in Shanghai, and a 75% interest in the Mandarin Oriental Hotel in Miami, Florida. Swire Properties also owns a majority interest in a foreign joint venture company which is constructing a mixed-use commercial development in Guangzhou, comprising four million square feet, to be managed by Swire Properties and called Taikoo Hui. Swire Properties' majority stake was increased from 55% to 97% during the year.

Swire Properties' trading portfolio comprises land and apartments under development in Hong Kong and Miami, Florida. The company has sold substantially all its inventory of completed residential apartments.

	2004 HK\$M	2003 HK\$M
<b>Turnover</b>		
<b>Gross rental income derived from</b>		
Offices	1,574	1,920
Retail	2,218	2,123
Residential	187	236
<b>Other income (Note)</b>	81	88
<b>Property investment</b>	4,060	4,367
<b>Property trading</b>	2,506	2,365
<b>Sale of investment properties</b>	766	833
<b>Total turnover</b>	7,332	7,565
<b>Operating profit derived from</b>		
Property investment	2,815	3,173
Property trading	838	213
Sale of investment properties	653	558
<b>Total operating profit</b>	4,306	3,944
<b>Share of profits before taxation jointly controlled and associated companies</b>		
Normal operations	170	66
Non-recurring items	350	-
<b>Attributable profit</b>	2,915	3,123

Note: Other income is mainly estate management fees.

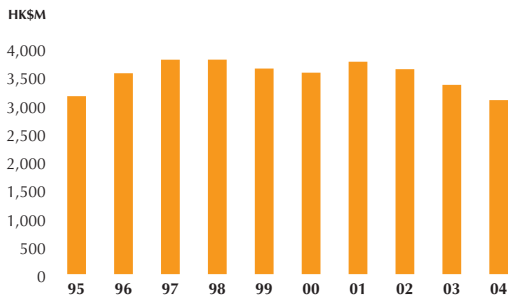
### Investment property portfolio - gross floor area ('000 square feet)

Location	Total	Office	Techno-centres	Retail	Residential
Pacific Place	3,508	2,180	-	711	617
TaiKoo Place	4,327	2,516	1,811	-	-
Cityplaza	2,751	1,646	-	1,105	-
Festival Walk	1,214	232	-	982	-
Others	842	183	-	585	74
<b>Total completed</b>	12,642	6,757	1,811	3,383	691
<b>Under and pending development</b>	5,462	4,310	-	1,152	-
<b>Total</b>	18,104	11,067	1,811	4,535	691

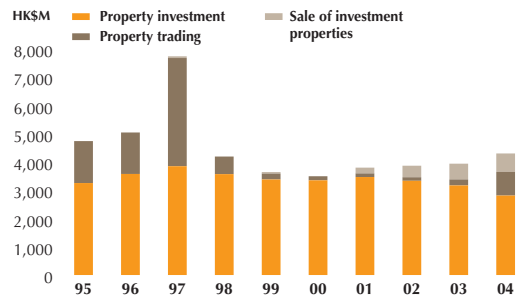
# 11:35



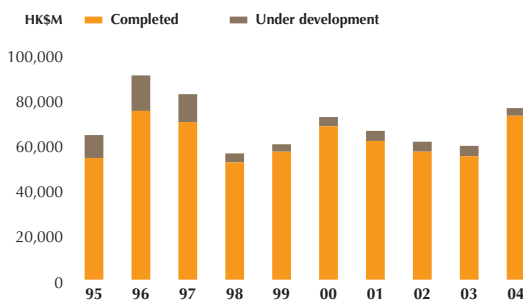
Net rental income



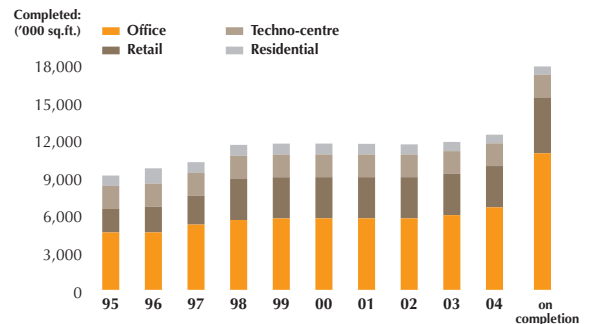
Operating profit before non-recurring items



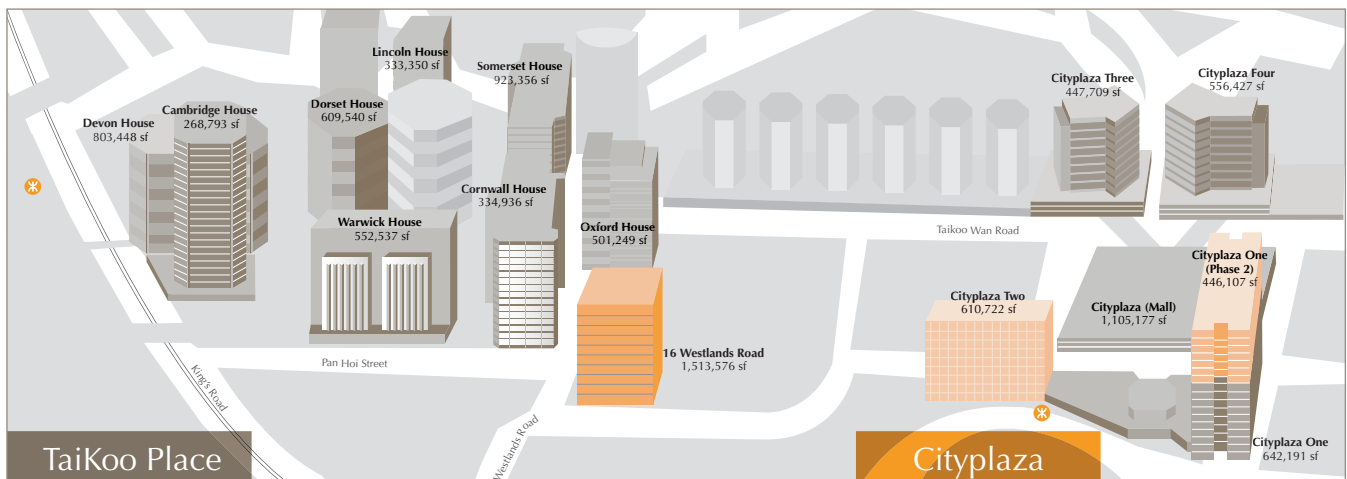
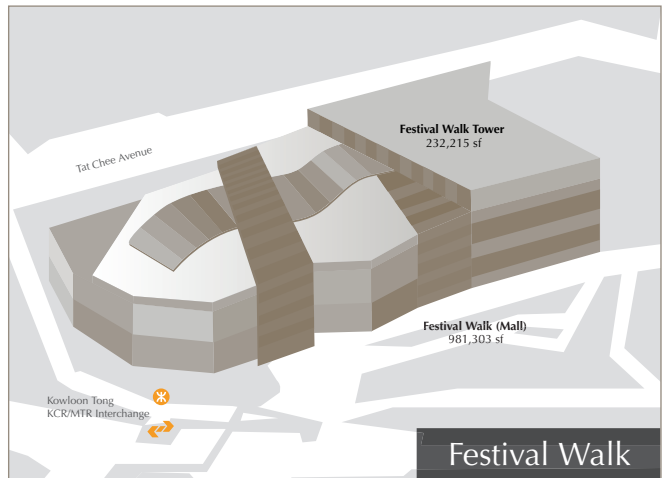
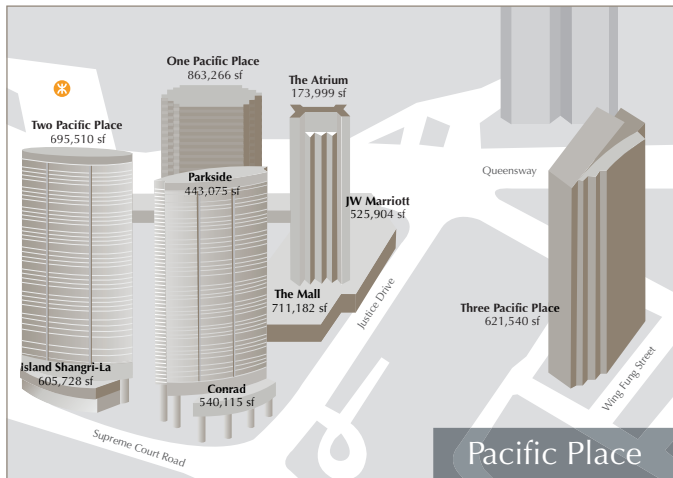
Valuation of investment properties



Floor area of investment properties



# Review of Operations – PROPERTY DIVISION



## 2004 OVERVIEW

All sectors of the Hong Kong property market have benefited from improved sentiment and a revived economy over the course of 2004. Demand for office space has increased, and as new supply has slowed, market rents have started to recover. Retail sales have remained strong, aided significantly by growth in tourism from the Mainland and our principal malls have continued to outperform the general Hong Kong market.

Net rental income from the investment portfolio amounted to HK\$3,082 million in 2004, compared with HK\$3,352 million in 2003. This decrease is principally attributable to the office portfolio where, despite an improvement in the market, reversionary rentals were negative throughout the year. Retail net rental income increased, with sales markedly higher.

The residential market in Hong Kong was active during the year, with both sales volumes and prices increasing sharply. Operating profit from property trading in 2004 amounted to HK\$838 million, compared to HK\$213 million in 2003. This principally reflects a good contribution from sales of units at Jade Residences in the United States, together with profits from the sale of remaining units at The Orchards in Hong Kong.

Profits from the sale of investment properties amounted to HK\$653 million, representing the sale of 13 apartments and two penthouses at The Albany during the year.

The result for the year includes the write-back of HK\$350 million of provisions for losses booked in previous years principally in respect of the Ocean Shores development, in which Swire Properties has a 49% interest. This reflects improving conditions in the residential trading market.

### Investment Properties

#### Offices

The office market was stronger in 2004 through a combination of increased demand and a reduced amount of new supply. However, gross rental income in 2004 from the office portfolio was 18% lower than in 2003, as new tenancies and lease renewals agreed during the year were generally at lower reversionary rents. Occupancy levels improved slightly and at the year-end averaged 82% for the office portfolio (excluding Three Pacific Place) compared to 80% at the end of 2003. Vacancy in Island East remains somewhat higher

than in Hong Kong Central, and market rents there have not yet rebounded to the same extent.

Three Pacific Place, comprising 630,000 square feet of office space, was completed in the first half of the year. Three anchor tenants have committed to leases representing 32% of the building, whilst discussions remain active with a number of prospective tenants.

In December 2004 Swire Properties agreed to acquire a 20% interest in a company that has purchased PCCW Tower in TaiKoo Place. The ultimate beneficial owner of this company is a closed-end property fund for institutional investors, which principally invests in real estate in various countries in Asia, managed by Pramerica Real Estate Investors (Asia) Pte. Ltd. PCCW Tower comprises 620,000 square feet of office space on 42 floors.

#### Retail

The Swire Properties retail portfolio continued to perform well during 2004 with increasing numbers of tourist arrivals from the Mainland and growing domestic consumer confidence. Gross rental income for the year was 4% higher than that of 2003. Retail sales at Swire Properties' three principal shopping malls were higher, and these centres remain fully let. Cityplaza, The Mall at Pacific Place and Festival Walk together welcome more than ten million visitors each month.

Cityplaza is the primary destination for shoppers in Island East. UNY, Wing On, Marks & Spencer and UA Cinemas are among the major anchor tenants; other tenants comprise over 170 retail and catering outlets and the Cityplaza Ice Palace, together totalling just over 1,100,000 square feet.

The Mall at Pacific Place is the pre-eminent shopping mall in Hong Kong. Seibu, Great Food Hall, Lane Crawford and UA Cinemas are the anchor tenants, together with 160 other retail and catering outlets amounting to approximately 700,000 square feet.

Festival Walk is jointly owned by Swire Properties and CITIC Pacific, and is a major shopping centre in Kowloon. Anchor tenants include Taste, Marks & Spencer, Page One Books and the 11-screen AMC Cinema, plus over 200 retail and catering outlets and the Glacier ice rink together comprising over 980,000 square feet.

# Review of Operations – PROPERTY DIVISION

The Citygate commercial centre at Tung Chung, in which Swire Properties has a 20% interest, comprises a retail centre and an office tower for which occupancy rates are 70% and 21% respectively. Securing tenants for the office space remains difficult. Construction of a 440-room hotel is underway for completion in late 2005.

## Residential Investment Portfolio

The residential portfolio comprises mainly The Atrium and Parkside serviced suites at Pacific Place and The Albany apartments in Mid-Levels. Half of the suites at Parkside have been refurbished and the remaining suites are currently undergoing refurbishment for completion in late 2005. Occupancy of the available serviced suites has been steady at 85% for much of the year. Only 12 apartments at The Albany remain unsold. The remaining residential properties on Hong Kong Island were fully let.

## Investment Properties under Development

Building plans have been approved for the construction of an office building of approximately 1,514,000 square feet at 16 Westlands Road, the former site of the Aik San and Melbourne Industrial Buildings in Quarry Bay, which would allow construction to commence in early 2006. Site excavation work is underway.

## 2004 Valuation of Investment Properties

The portfolio of completed investment properties in Hong Kong, as well as properties intended for investment which are under or pending development, were revalued at 31st December 2004 by professionally-qualified executives of the group. As a result of this valuation, Swire Pacific's property valuation reserve increased by HK\$14,915 million. The increase in 2004 reflects the recovery in office rental levels and benchmarks set by recent transactions in the market. Swire Pacific's property valuation reserve at 31st December 2004 following the revaluation showed a surplus of HK\$34,680 million. Particulars of the properties in Hong Kong and the USA, both for investment and development for sale, are set out on pages 109 to 117.

## Taikoo Shing Arbitration

The Hong Kong SAR Government Lands Department's claim for payment of land premium and interest in relation to the Cityplaza Four, Cityplaza Three and Cityplaza One office towers, as well as the Horizon Gardens residential scheme at Taikoo Shing, was upheld in an arbitration award announced

in January 2001. In July 2003 the Court of Final Appeal refused to grant Swire Properties leave to appeal on a point of law. Following a fresh hearing held in February 2004, the arbitrator determined that the valuation dates for the purpose of quantifying the amount of land premium on the office towers should be the dates on which occupation permits were issued for each of the buildings, and that interest should be calculated at two-thirds of HIBID from those valuation dates.

Swire Properties and the Lands Department have been engaged in discussions over the past several months attempting to settle land premium figures for the Cityplaza office towers at the respective valuation dates. Those discussions continue, by mutual agreement. In the event that a settlement cannot be reached, the amount of land premium will be determined by a panel of experts.

An amount of HK\$4,500 million was provided in the Swire Pacific group accounts as at 31st December 2000. Of this amount HK\$250 million related to the Horizon Gardens residential scheme and HK\$4,250 million related to the Cityplaza office towers. Outstanding issues on Horizon Gardens have now been fully resolved. Land premium of HK\$151 million was paid in March 2001 and the interest thereon has now been determined to be HK\$58 million. The provision of HK\$250 million previously charged to the profit and loss account was therefore overstated, and the remaining balance of HK\$41 million was credited to the profit and loss account during the year.

In respect of the three Cityplaza office towers, whilst the valuation dates, interest rate and period for calculating premium interest have now been determined, the quantum of premium remains to be settled in accordance with the procedure outlined above. The amount of HK\$4,250 million accrued previously is considered to remain more than adequate to cover Swire Pacific's total cash exposure. Swire Properties made a payment on account of premium to Government in the amount of HK\$2,027 million in August 2004. The quantum of premium interest payable in respect of this amount from the relevant valuation dates to date of payment at the rate determined by the arbitrator is estimated to be HK\$500 million, and this amount was charged to the profit and loss account during the year. The balance of HK\$1,723 million remaining from the provision made in 2000 will be retained until the final quantum of premium and premium interest is known, and



the exact allocation of any further cash payment between revaluation reserve and current year profit and loss account will only be determined at that time.

### Property Trading Portfolio

The portfolio of developments for sale comprises residential apartments in Hong Kong and the USA. In Hong Kong there remain only a handful of unsold units, principally at Ocean Shores.

The Orchards residential project on King's Road comprises two residential towers with 442 units and 144 car park spaces. The project was sold out in the first half of the year.

Ocean Shores in Tseung Kwan O comprises 5,728 residential units in 15 towers with 1,176 car park spaces and 32,000 square feet of neighbourhood shopping area. Almost all units have now been sold. Swire Properties has a 49% interest in this development.

The Les Saisons residential scheme in Aldrich Bay in which Swire Properties has a 50% interest was sold out during the year.

The residential schemes at Tung Chung Crescent and Seaview Crescent, comprising a total of 3,694 units, were developed in conjunction with the Citygate commercial centre, under an agreement with MTRC. The units at Tung Chung Crescent and Seaview Crescent are essentially sold out.

Swire Properties controls over 99% of the residential properties at 2A – 2E Seymour Road in Mid-Levels, with an approved redevelopment potential of approximately 174,000 square feet. There is potential to increase this to approximately 229,000 square feet subject to planning approval. This development will proceed once final acquisition has been completed and outstanding approvals have been obtained.

A former bus depot site on Wong Chuk Hang Road, Aberdeen, is owned 50:50 by Swire Properties and China Motor Bus. The site has an industrial development potential of 382,000 square feet, but there are currently no plans to proceed. Consideration is being given to alternative uses.

### Hotels

The JW Marriott, Conrad Hong Kong and Island Shangri-la hotels at Pacific Place have benefited from the increase in the

number of inbound visitor arrivals. Occupancy levels and room rates both continued to improve during the year.

### Mainland China

During the year Swire Properties signed a revised joint venture agreement to increase its stake in the four million square foot Taikoo Hui development in Guangzhou to 97%. This project is planned to consist of 1.2 million square feet of prime shopping space, two office towers, a five-star hotel and a cultural centre. It is scheduled for completion in 2008 at a total estimated cost of RMB 4,000 million.

Swire Properties has a 10% interest in CITIC Square on Nanjing Road West, Shanghai. The building comprises 1.1 million square feet of retail and office space, and is 100% let.

### USA

Construction was completed during the year at Jade Residences, a 338-unit residential condominium development at Brickell Bay, Miami in which Swire Properties has a controlling interest. Substantially all units have been handed over to purchasers, with two units remaining unsold. Construction of The Carbonell, a 284-unit condominium tower on Brickell Key, is well advanced, with completion scheduled for July 2005. Almost all units have been sold, and profits will be recognised as units are handed over to purchasers. Construction work at Asia, a 123-unit condominium tower also on Brickell Key, will commence shortly, with completion scheduled in the first half of 2007.

The 329-room Mandarin Oriental Hotel, which is 75% owned by the group, saw a pick-up in both occupancy and room rates and reported an improved operating profit.

### 2005 Outlook

Swire Properties will continue to examine opportunities to expand its Hong Kong commercial property portfolio, with the development of 16 Westlands Road a primary focus in 2005. In residential trading, the company will pursue quality projects, in which it has established a strong track record.

On the Mainland, the development of Taikoo Hui in Guangzhou is underway, and the scope for further projects of this scale and nature in other cities is being actively explored. In the USA, Swire Properties intends to build further on its reputation for developing high-quality residential apartments in South Florida.